

STATE OF CALIFORNIA
Budget Change Proposal - Cover Sheet
DF-46 (REV 08/17)

Fiscal Year 2019-20	Business Unit 7730	Department Franchise Tax Board	Priority No. 8
Budget Request Name 7730-008-BCP-2019-GB		Program 6280	Subprogram 6280019

Budget Request Description
AB 2503 – Administrative Dissolution

Budget Request Summary

The Franchise Tax Board (FTB) requests five permanent positions and \$330,000 General Fund in 2019-20 and \$311,000 in 2020-21 and ongoing to administer the provisions of Assembly Bill 2503 (Chapter 679, Statutes of 2018) that was chaptered on September 22, 2018. This bill would, under Corporations Code, provide administrative dissolution for certain domestic corporations and domestic limited liability companies (LLCs).

Requires Legislation <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed 2205.5 and 17713.10.1 to Corp Code 23310 and 23311 to Rev and Tax Code	
Does this BCP contain information technology (IT) components? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO	Date

For IT requests, specify the project number, the most recent project approval document (FSR, SPR, S1BA, S2AA, S3SD, S4PRA), and the approval date.

Project No. Project Approval Document: Approval Date:

If proposal affects another department, does other department concur with proposal? ☐ Yes ☐ No
Attach comments of affected department, signed and dated by the department director or designee.

Prepared By	Date	Reviewed By	Date
Department Director	Date	Agency Secretary	Date

Pending Board Approval

Department of Finance Use Only

Additional Review: ☐ Capital Outlay ☐ ITCU ☐ FSCU ☐ OSAE ☐ CALSTARS ☐ Dept. of Technology

PPBA Date submitted to the Legislature

A. Budget Request Summary

The Franchise Tax Board (FTB) requests five permanent positions and \$330,000 General Fund in 2019-20 and \$311,000 in 2020-21 and ongoing to administer the provisions of Assembly Bill 2503 (Chapter 679, Statutes of 2018) that was chaptered on September 22, 2018. This bill would, under Corporations Code, provide administrative dissolution for certain domestic corporations and domestic limited liability companies (LLCs).

B. Background/History

Prior to the enactment of AB 2503, FTB lacked statutory authority to administratively dissolve business entities that failed to complete the process required to legally dissolve; thus these entities remain on the department's accounting system, continuing to accrue taxes, interest, and penalties.

Certain steps are necessary to dissolve a business entity:

- The business entity must file an annual return for the year a business entity ends business operations.
- If the business entity has employees, the entity must file the final employment returns, in addition to making final federal tax deposits of these taxes.
- The business entity must attach a statement to the return showing the name of the person keeping the payroll records and the address where those records will be stored.

For the tax year in which the business ceases to exist, the business entity must check the box indicating that the return is a "final return". The entity will continue to exist and accrue taxes, interest, and penalties, until it is properly dissolved.¹

If the FTB is unable to collect a debt from a taxpayer, current state law² allows the FTB to extinguish the uncollected debt after 20 years.

This bill provides two options for administrative dissolution of qualified entities when there is unpaid minimum franchise or annual tax.

Option 1: FTB-Initiated Administrative Dissolution (Involuntary)

This option allows the FTB to administratively dissolve those domestic corporations and domestic LLCs that are suspended by the FTB, have ceased doing business, have been suspended for 60 or more consecutive months, and have paid all taxes and filed all returns due as of the date the entity ceased doing business.

Prior to the administrative dissolution under this option, the FTB is required to provide written notice to the business entity of the pending administrative dissolution. The FTB will transmit to the Secretary of State (SOS) the names and SOS file numbers of domestic corporations and domestic LLCs subject to the administrative dissolution. Upon receipt of the transmission, the SOS will provide on its website a 60 calendar-day notice of a pending administrative dissolution by listing the corporation or LLC name, and the SOS's file number, as applicable.

The notified corporation or LLC will be allowed to file a written objection with the FTB to object to the administrative dissolution. If a timely written objection is received by the FTB, the domestic corporation or domestic LLC has an additional 90 days to pay or otherwise satisfy all accrued taxes, penalties, and

¹ Corporations Code sections 201(c) & 17701.04(c).

² Revenue & Taxation Code (R&TC) section 19255.

interest, file a current Statement of Information with the SOS, fulfill any other requirements to be eligible, and apply for revivor. The 90-day period may be extended for no more than one period of up to 90 days, by the FTB. If there is no written objection or the written objector fails to revive, the domestic corporation or domestic LLC would be administratively dissolved. Upon administrative dissolution, the FTB will abate the domestic corporation's or domestic LLC's liabilities for qualified taxes, interest, and penalties.

The administrative dissolution of a corporation would not diminish or adversely affect the ability of the Attorney General to enforce liability as otherwise provided by law.

No administrative appeal, writ, or other judicial action may be taken based on the FTB's or the SOS's action, except if related to repayment of amounts erroneously received after administrative dissolution has occurred.

Upon administrative dissolution, the corporate rights, powers, and privileges of the corporation would cease.

Option 2: Taxpayer-Initiated Administrative Dissolution (Voluntary)

This option would be available to domestic corporations and domestic LLCs that have never done business or have ceased doing business within California, have paid all taxes due for years when the business was in operation, and filed all required returns prior to the cessation of business operations.

Under this option, taxpayers applying for administrative dissolution will be required to do all of the following:

- Request in writing from the FTB abatement of any unpaid qualified taxes, interest, and penalties.
- File dissolution paperwork with the SOS prior to the abatement of unpaid qualified tax, interest, and penalties by the FTB.
- Establish that it has ceased all business activity and has no remaining assets at the time of filing the request for abatement.

The FTB may prescribe any regulations that may be necessary or appropriate to implement the purposes of this section.

If a qualified entity has been dissolved but continues to do business,³ or has any remaining assets which were not disclosed by the qualified entity at the time of the request for abatement,⁴ the total tax, interest, and penalties that were abated shall be immediately due and payable. In addition, a penalty equal to 50 percent of the total tax abated, plus interest payable pursuant to Section 19101 on that amount for the period or periods beginning on the last date prescribed by law for the payment of that tax, determined without regard to extensions, and ending on the date the tax was abated, shall be imposed. This penalty would be in addition to any other penalty imposed.⁵

³ Within the meaning of subdivision (a) of Section 23310.

⁴ Under Section 23310.

⁵ Under Part 10 (commencing with Section 17001), Part 10.2 (commencing with Section 18401) and Part 11 (commencing with Section 23001).

Analysis of Problem

Resource History Advisory, Analysis & Services Bureau (Dollars in thousands)

Program Budget	2013-14	2014-15	2015-16	2016-17	2017-18
Authorized Expenditures	11,390	11,741	12,637	12,911	12,853
Actual Expenditures	10,887	11,576	11,588	11,849	11,857
Revenues	0	0	0	0	0
Authorized Positions	151	145.5	147.5	146.5	141.5
Filled Positions	130	132.5	130	124.5	119
Vacancies	21	13	17.5	22	22.5
Vacancies Attributed to LOA	---	---	---	---	2
Vacancies with Existing Job Op	---	---	---	---	8

Resource History Business Entity Collection Bureau (Dollars in thousands)

Program Budget	2013-14	2014-15	2015-16	2016-17	2017-18
Authorized Expenditures	14,167	14,718	15,178	15,793	16,218
Actual Expenditures	13,977	14,539	14,524	15,856	16,950
Revenues	0	0	0	0	0
Authorized Positions	189	189	186	186	185
Filled Positions	174	170	167	168	172
Vacancies	15	19	19	18	13
Vacancies Attributed to LOA	---	---	---	---	1
Vacancies with Existing Job Op	---	---	---	---	2

Workload History

Workload Measure	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Number of Contacts	NA	NA	NA	NA	NA	4,500

C. State Level Considerations

This proposal supports FTB's mission to fairly and effectively administer the state's tax system and the strategic plan goals for Taxpayer Centric Service, a Strong Organization and Operational Excellence.

D. Justification

In order to comply with this legislative mandate, FTB is requesting 5 permanent positions. One position will work the FTB-Initiated Administrative Dissolution (Involuntary) workload and three positions will work the Taxpayer-Initiated Administrative Dissolution (Voluntary) workload. An additional position will provide Business Entities (BE) support.

The positions are needed to design, develop, implement, and maintain the policies, procedures and tools necessary to manage and process the Voluntary Dissolution requests received from businesses. Once the policies, procedures, and tools are established, the staff will also determine and analyze the universe of cases that meet the Involuntary Dissolution criteria. In addition they will design, develop,

Analysis of Problem

implement, and administer the policies, procedures and tools necessary to manage and process the businesses identified for Involuntary Dissolution. The FTB anticipates a cost savings in the Receiving and Data Storage Section, Information Capture and Banking Section and the Business Entities Section. The savings will be generated through the ability to recognize the (potentially) “defunct” entities prior to generating assessments, which will address the entities’ status prior to it flowing through the system.

The total BCP request includes the cost of the five positions less the estimated savings.

E. Outcomes and Accountability

It is the responsibility of FTB to implement the provisions of AB 2503. The Administrative Dissolution workloads will be handled under the direction of the Accounts Receivable Management Division Chief. The fiscal oversight is the responsibility of the Chief Financial Officer (CFO).

Projected Outcomes

Workload Measure	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Number of Contacts	4,500	9,000	9,000	9,000	9,000	9,000

F. Analysis of All Feasible Alternatives

Alternative #1: Approve five permanent positions and funding of \$330,000 in 2019-20 and \$311,000 in 2020-21 and ongoing.

This alternative provides the resources necessary to administer both the FTB-Initiated (Involuntary) and Taxpayer-Initiated (Voluntary) options of AB 2503 pertaining to Administrative Dissolution.

Alternative #2: Do nothing.

This alternative fails to comply with the mandates of AB 2503.

G. Implementation Plan

June 2019 – All documents to establish the permanent positions are prepared and approved by the FTB Budget Officer and forwarded to Department of Finance.

June 2019 – Department of Finance notifies FTB of positions approval.

July 2019 – Permanent positions are established and FTB begins hiring.

H. Supplemental Information

None.

I. Recommendation

FTB recommends Alternative #1 be approved. Approval of this alternative will ensure that FTB has the adequate resources to fully comply with the mandates of AB 2503.

Position Workload Metrics

Section Name	Classification	Resource Type (Perm, TH, OT)	Tasks (workloads)	2019/20 Volume	Production Rate (per hour)	Total Hours	Positions	Risk Impact if Position(s) Not Approved
BECB (636)	CR	PERM	CR to perform all tasks relating to the analysis/processing of involuntary and voluntary dissolutions.	9000	1.2	7,500	4	Unable to implement the provisions of AB 2503
CARS B (624)	TPT II	PERM	TPT II to perform all tasks relating to processing transactions of involuntary and voluntary dissolutions.	9000	5	1,800	1	
Total Hours/Positions						9,300	5	

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	CY	BY	BY+1	BY+2	BY+3	BY+4
Positions						
Permanent	0.0	5.0	5.0	5.0	5.0	5.0
Temporary	0.0	0.0	0.0	0.0	0.0	0.0
Exempt	0.0	0.0	0.0	0.0	0.0	0.0
Board	0.0	0.0	0.0	0.0	0.0	0.0
Total Positions	0.0	5.0	5.0	5.0	5.0	5.0
Salaries and Wages						
Earnings - Permanent	0	245,000	245,000	245,000	245,000	245,000
Earnings - Temporary	0	-101,000	-101,000	-101,000	-101,000	-101,000
Earnings - Statutory/Exempt	0	0	0	0	0	0
Overtime, Holiday, Other	0	0	0	0	0	0
Total Salaries and Wages	\$0	\$144,000	\$144,000	\$144,000	\$144,000	\$144,000
Staff Benefits						
Dental Insurance	0	3,000	3,000	3,000	3,000	3,000
Disability Leave	0	0	0	0	0	0
Health Insurance	0	0	0	0	0	0
Life Insurance	0	0	0	0	0	0
Medicare Taxation	0	4,000	3,000	3,000	3,000	3,000
OASDI	0	15,000	9,000	9,000	9,000	9,000
Retirement	0	70,000	70,000	70,000	70,000	70,000
Unemployment Insurance	0	-6,000	-6,000	-6,000	-6,000	-6,000
Vision Care	0	1,000	1,000	1,000	1,000	1,000
Workers' Compensation	0	1,000	1,000	1,000	1,000	1,000
Staff Benefits - Other	0	68,000	68,000	68,000	68,000	68,000
Total Staff Benefits	0	156,000	149,000	149,000	149,000	149,000
Total Personal Services	\$0	\$300,000	\$293,000	\$293,000	\$293,000	\$293,000
Operating Expenses and Equipment						
General Expense	0	12,000	4,000	4,000	4,000	4,000
Printing	0	0	0	0	0	0
Communications	0	3,000	3,000	3,000	3,000	3,000
Postage	0	0	0	0	0	0
Insurance	0	0	0	0	0	0
Travel	0	0	0	0	0	0
Training	0	0	0	0	0	0
Facilities Operations	0	0	0	0	0	0
Utilities	0	0	0	0	0	0
Consulting and Professional Services	0	0	0	0	0	0
Departmental Services	0	0	0	0	0	0
Consolidated Data Centers	0	0	0	0	0	0
Information Technology	0	15,000	11,000	11,000	11,000	11,000
Central Administrative Services	0	0	0	0	0	0
Office Equipment	0	0	0	0	0	0
Other	0	0	0	0	0	0
Unclassified/Special Adjustment	0	0	0	0	0	0
Total Operating Expenses and Equipment	\$0	\$30,000	\$18,000	\$18,000	\$18,000	\$18,000
Total Budget Request	\$0	\$330,000	\$311,000	\$311,000	\$311,000	\$311,000
Fund Source - State Operations						
General Fund	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Other/Special Funds	0	0	0	0	0	0
Reimbursements	0	0	0	0	0	0
Total State Operations Expenditures	\$0	\$0	\$0	\$0	\$0	\$0
Fund Source - Local Assistance						
General Fund	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Other/Special Funds	0	0	0	0	0	0
Reimbursements	0	0	0	0	0	0
Total Local Assistance Expenditures	\$0	\$0	\$0	\$0	\$0	\$0